

Review

Financial statements

- Cash Ledger
- Profit & Loss Statement
- Balance Sheet
- Cashflow forecast

Which financial statement relates most directly to taxation?

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Which financial statement relates most directly to taxation?

Simplified Profit & Loss statement

10,000	Income
(2,000)	Expenses
8,000	Net profit before tax
(1,600)	Tax (Income)
6,400	Net profit after tax

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Death & Taxes

"In this world there nothing can be said to be certain, except death and taxes" (Franklin as cited by Moncur, n.d.)

Common types of tax (NZ)

- Income tax
- Provisional tax
- Goods and Services Tax (GST)
- PAYE

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Tax rates (IRD, 2004)

Sole trader – individual tax rates

Partnership

- Income divided among partners
- Partners pay income at individual rates

Company

- Company pays tax at company tax rate
- Owner paid wages – taxed at individual rates

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Income tax (IRD, 2004)



Balance date

- When financial statements start/finish
- Default: 31 March

Income tax return

- Due at some time after balance date
- Default: 7 July

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Income Tax



e.g.

Balance date: 31 March

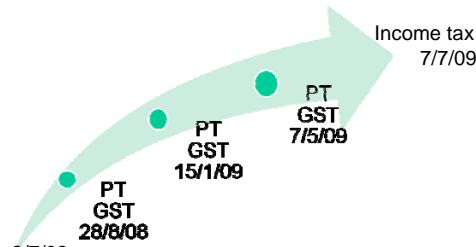
Income tax return due: 7 July

Profit & Loss 2008/2009	
42,000	Income
(12,000)	Expenses
30,000	Net profit before tax
(5,850)	Tax (at 19.5%)
24,150	Net profit after tax

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Provisional Tax





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Provisional Tax (IRD, 2009a)



Year for provisional tax being calculated	Year of RIT amount used	Adjustment
2009	2007	RIT \pm \$730 \pm 5%
	2008	RIT \pm \$730
2010	2008	RIT \pm \$1460 \pm 5%
	2009	RIT \pm \$730
2011	2009 (back to original calculation)	RIT \pm 10%
	2010 (back to original calculation)	RIT \pm 5%

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Provisional tax (IRD, 2009a)



Using previous example (2008/2009)

- Income \$42,000
- Tax \$5,850

$RIT = \$5,850 > \$2,500$

$Provisional tax (2010) = RIT - \$730 = \$5,120$

→ three instalments of \$1,706.67

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Income & provisional tax



Provisional tax spreads out the payment of income tax over the year

Income tax return =
Total income tax – Provisional tax paid

Payment of provisional tax is optional in the first year of trading

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Goods & Services Tax



"Goods and services tax (GST) is a tax on **most** goods and services in New Zealand" (IRD, 2007)

Compulsory GST Threshold: \$60,000 (IRD, 2009b)

Implications of GST registration

- Service cost increases by 12.5%
- Presents professional image
- Can claim GST on most business expenses



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Review

- Annual financial cycle – Balance dates
- Types of tax
 - Income Tax
 - Residual Income Tax
 - Provisional tax
 - GST
- Get an accountant



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The Assessment



"For the purposes of this assessment, you can ignore provisional tax. Assume that you pay income tax at the end of each year of operation on the profit of your business over that period."

Income Tax
Provisional Tax
GST
PAYE



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